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The Medicaid Financial Highlight report reviews current issues and trends in Medicaid financial operations. The Budget Branch of the Division of State Agency Financial Management prepared this highlight. For more information on this report call Dave McNally on FTS 987-1398 or John Lemieux on FTS 934-6876.

ANALYSIS OF REDUCTIONS IN FEDERAL MEDICAID PAYMENTS TO STATES SECTIONS 1903(s) and (t) OF THE SOCIAL SECURITY ACT FISCAL YEARS (FYs) 1982 - 1984

Overview

This Medicaid Financial Highlight report presents an analysis of the impact of Sections 1903(s) and (t) of the Social Security Act, which were added by Section 2161 of the Omnibus Budget Reconciliation Act of 1981. Under section 1903(s), Federal payments to which a State was entitled under Medicaid were reduced by 3.0 percent for FY 1982, 4.0 percent for FY 1983, and 4.5 percent for FY 1984. The State was permitted to offset the reductions by up to 3 percentage points for each quarter if it had:

- o An average unemployment rate that was equal to or greater than 150.0 percent of the national average;
- o A Federally approved operating hospital cost containment program;
- o Fraud and abuse recoveries equal to at least 1.0 percent of total Federal Medicaid payments for the preceding quarter (third party liability recoveries were considered for FY 1982 only).

Section 1903(t) provided that a State would be entitled to a dollar-for-dollar rebate (incentive rebate) of the outstanding section 1903(s) reductions if total Federal Medicaid expenditures for FYs 1982, 1983, or 1984 fell below the target spending levels established for those respective years. The amount of the incentive rebate would be the lesser of the outstanding reductions or the amount by which the expenditures fell below the target.

The data contained in this report for FYs 1982 and 1983 are based on the latest available expenditure and incentive rebate grant award information. State estimates from the November 1984 submission of Form HCFA-25, Medicaid Program Budget Report, were used to project FY 1984 data. Preliminary FY 1984 incentive rebates will be issued by the Division of State Agency Financial Management in January 1985. Incentive rebates will be recalculated annually near the end of each fiscal year, as the section 1903(s) and (t) provisions contain no cutoff for considering the impact of subsequent financial adjustments that tie back to FYs 1982 through 1984.

The following table summarizes the impact of sections 1903(s) and (t) for FYs 1982 through 1984:

(In Millions of Dollars)

	FY 1982	FY 1983	FY 1984
Gross Reductions	$530.6	$772.7	$926.7
Less - Unemployment Offsets	$ 8.2	$ 7.6	$ 7.0
Hospital Offsets	50.9	53.6	57.4
Fraud and Abuse Offsets	109.5	62.8	59.3
Total Offsets	$168.6	$124.0	$123.7
Less - Incentive Rebates	$201.2	$315.9	$376.8
Net Federal Savings	$160.8	$332.8	$426.2

CHART 1

Chart 1 provides a graphic presentation of the proportion of incentive rebates/offsets (i.e., State recoupments) and net Federal savings to section 1903(s) gross reductions for FYs 1982 through 1984.

- Gross reductions rose $396.1 million (74.7 percent) from FY 1982 to FY 1984. An increase in the gross reduction percentage from 3.0 percent in FY 1982 to 4.5 percent in FY 1984 combined with a 16.2 percent rise in Medicaid expenditures account for the large growth.

- The proportion of State recoupments to gross reductions decreased from 69.7 percent in FY 1982 to 56.9 percent in FY 1983, and 54.0 percent in FY 1984. A decline in the number of States qualifying for full incentive rebates, along with the exclusion of Third Party Liability recoveries for offset qualification beginning in FY 1983, explain the proportional decline from FY 1982.

- Conversely, the proportion of net Federal savings to gross reductions rose from 30.3 percent in FY 1982 to 43.1 percent in FY 1983, and 46.0 percent in FY 1984.

CHART 1

REBATES/OFFSETS AND NET FEDERAL SAVINGS
PROPORTION TO GROSS REDUCTIONS

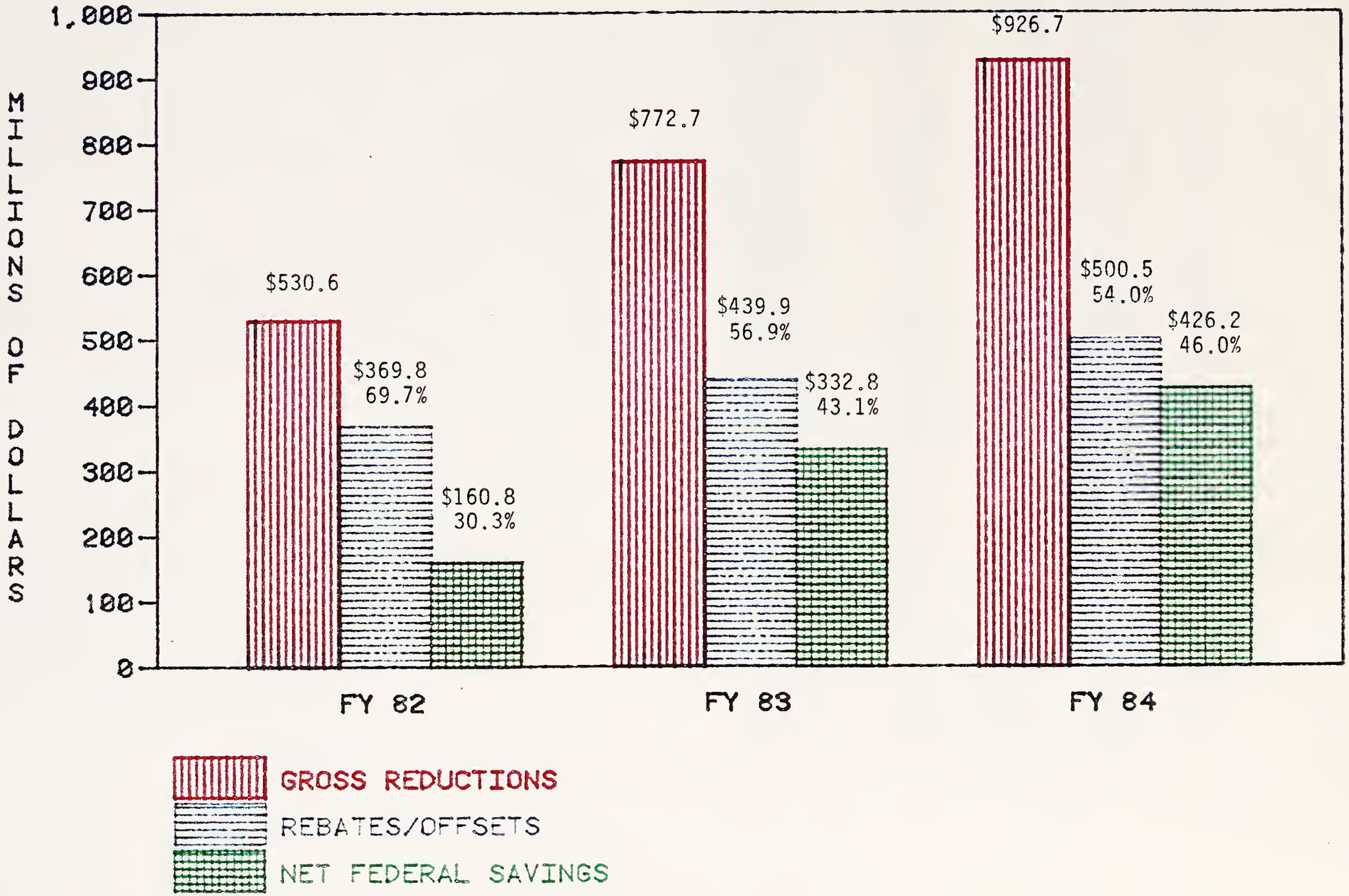


CHART 2

Chart 2 highlights the five major net Federal savings States for FYs 1982 through 1984.

- o The top five savings States annually contributed over 55 percent to the total net Federal savings, with New York, Pennsylvania, and Ohio alone accounting for well over 40 percent of each fiscal year's total.

- o Massachusetts is expected to qualify for an incentive rebate for the first time in FY 1984, which explains its absence from the major savings States in FY 1984.

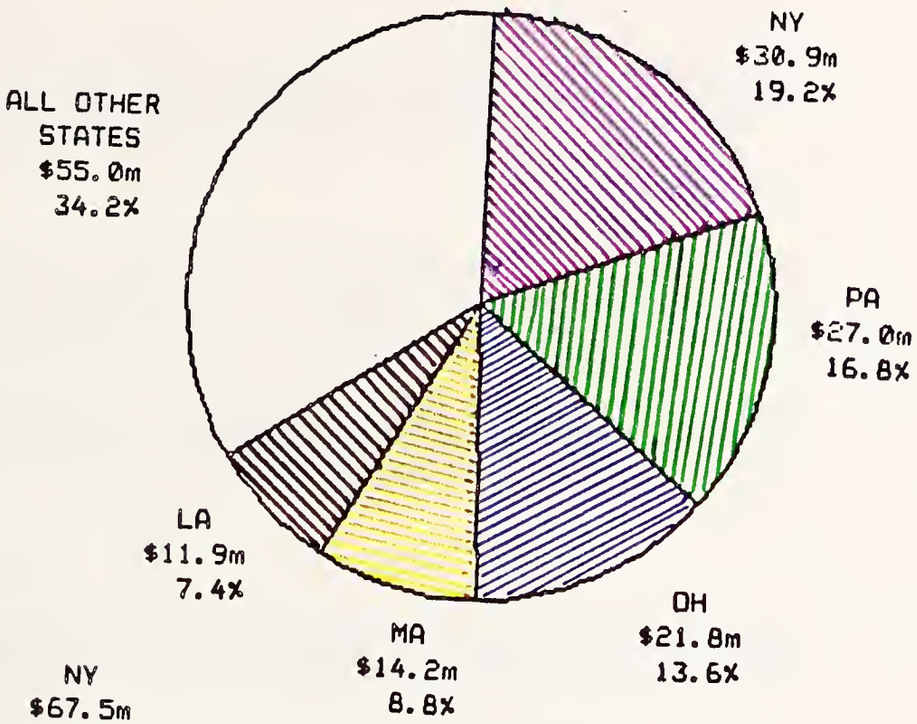
- o The first time Michigan appears in the top five savings States is in FY 1984, primarily because the State received incentive rebates in FYs 1982 and 1983 but is not expected to qualify in FY 1984.

- o Minnesota's failure to qualify for the Fraud and Abuse (FA) offset in FYs 1983 and 1984 while qualifying for the Third Party Liability/Fraud and Abuse (TPL/FA) offset in FY 1982, contributed to its appearance in the top five savings States in FYs 1983 and 1984.

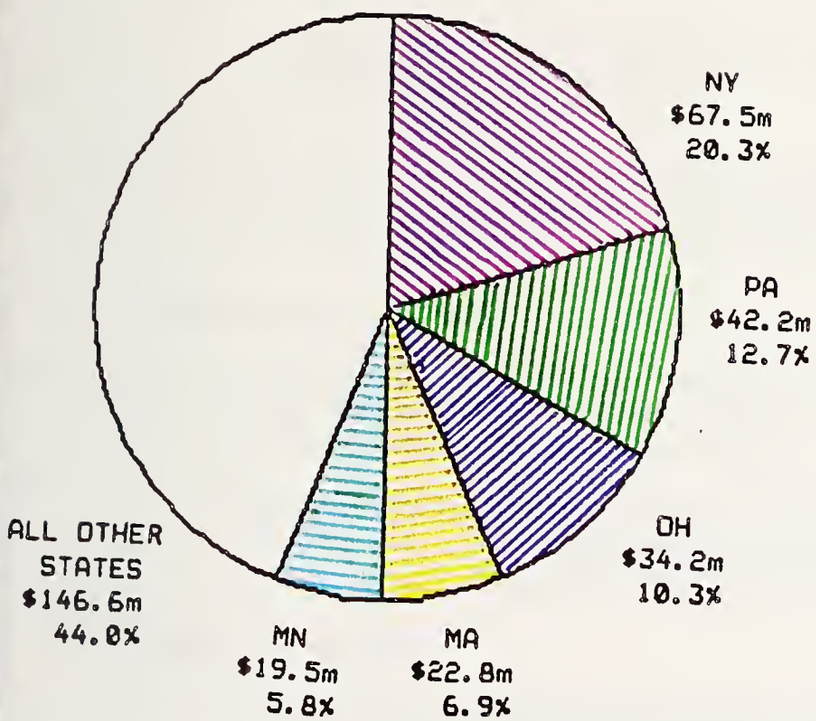
CHART 2

NET FEDERAL SAVINGS

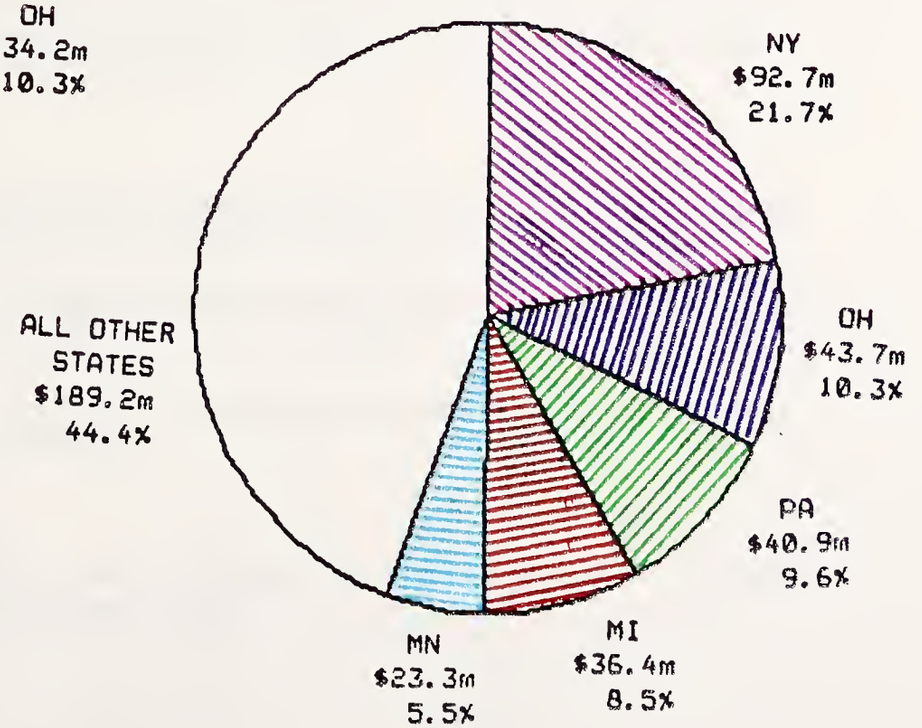
FY 1982 - $160.8 MILLION



FY 1983 - $332.8 MILLION



FY 1984 - $426.2 MILLION



TABLES I-III

Tables I through III display the State-specific expenditures considered for target level comparison, as well as the target levels, gross reductions, offsets, incentive rebates, and net Federal savings from sections 1903(s) and (t) for FYs 1982 through 1984.

Fraud and Abuse Offsets

- Thirty-three States qualified for at least one quarter in FY 1982. Third Party Liability recoveries were considered in FY 1982 only. As a result, only eight States qualified in FY 1983 and five States are expected to qualify in FY 1984.

- New York and California earned 47.4 percent of the total TPL/FA offsets awarded for FY 1982. In FYs 1983 and 1984, the New York and California collective share of total FA offsets markedly increased to 87.8 percent and 97.1 percent.

Hospital Cost Containment Offsets

- Connecticut, Maryland, Massachusetts, New Jersey, New York, and Rhode Island received offsets in each fiscal year. Washington qualified in FY 1982 but failed to qualify in FYs 1983 and 1984.

- The growth in Medicaid expenditures, offset by Washington's failure to qualify in FY 1984, contributed to a $6.4 million, 12.6 percent, increase in hospital cost containment offsets between FYs 1982 and 1984.

Unemployment Offsets

- Alabama and Michigan qualified for this offset for at least one quarter in all fiscal years. West Virginia qualified in FYs 1983 and 1984, while Alaska qualified for the first time in FY 1984.

- Michigan's decline in qualifying from four quarters in FY 1982 to two quarters in FY 1984 primarily accounted for the $1.1 million, 13.7 percent, decrease in unemployment offsets from FYs 1982 to 1984.

Incentive Rebates

- Thirty-one States' expenditures were below established target levels in FY 1982, 26 States in FY 1983, and 28 States in FY 1984.

- Twenty-eight States qualified for full incentive rebates in FY 1982, 16 States in FY 1983, and 18 States in FY 1984.

- California, Illinois, Texas, and Wisconsin combined, represented over 45 percent of each FY's total incentive rebates.

Net Federal Savings

- Federal savings were attained from 22 States in FY 1982, 34 States in FY 1983, and 32 States in FY 1984. (See also Chart 2).

STATE SUMMARY TABLE I

Federal Net Savings Table Reflecting Impact of Sections 1903(s) and (t) of the Social Security Act

(Dollars in Thousands)

Fiscal Year 1982

	1/ State Expend.	2/ Target	3/ Gross Reduct.	4/ Offsets			5/ FY 1982 Incentive Rebate	6/ Federal Net Savings
				TPL/F&A	Hosp.	Unemp.		
Alabama	$ 241,017	$ 245,200	$ 7,027	$ 2,342	$ 0	$ 623	$ 4,062	$ 0
Alaska	20,294	24,138	653	0	0	0	653	0
Arkansas	212,115	244,044	6,322	0	0	0	6,322	0
California	2,150,066	2,218,030	63,254	21,085	0	0	42,169	0
Colorado	136,604	131,881	4,197	1,399	0	0	0	2,798
Connecticut	229,670	212,247	6,896	2,299	2,299	0	0	2,298
Delaware	30,121	32,728	904	0	0	0	904	0
Dist. of Columbia	91,834	103,537	2,877	0	0	0	2,877	0
Florida	355,319	350,649	10,667	3,556	0	0	0	7,111
Georgia	402,447	413,496	12,028	4,009	0	0	8,019	0
Hawaii	66,585	63,016	1,958	653	0	0	0	1,305
Idaho	41,878	45,027	1,254	418	0	0	836	0
Illinois	763,107	824,917	22,873	2,034	0	0	20,839	0
Indiana	298,431	282,850	8,942	0	0	0	0	8,942
Iowa	169,492	165,685	5,023	1,674	0	0	0	3,349
Kansas	128,988	133,719	3,858	1,286	0	0	2,572	0
Kentucky	276,141	285,375	8,267	0	0	0	8,267	0
Louisiana	395,700	365,818	11,935	0	0	0	0	11,935
Maine	137,300	123,536	4,054	1,351	0	0	0	2,703
Maryland	250,883	267,693	7,527	2,509	2,509	0	2,509	0
Massachusetts	690,563	685,728	21,287	0	7,096	0	0	14,191
Michigan	760,489	772,409	22,612	7,537	0	7,537	7,538	0
Minnesota	446,720	427,024	13,401	4,467	0	0	0	8,934
Mississippi	218,295	221,066	6,460	2,153	0	0	2,771	1,536
Missouri	266,278	287,355	7,909	0	0	0	7,909	0
Montana	46,458	49,170	1,602	534	0	0	1,068	0
Nebraska	88,774	89,548	2,659	886	0	0	774	999
Nevada	37,093	32,689	1,103	368	0	0	0	735
New Hampshire	55,664	61,358	1,670	282	0	0	1,388	0
New Jersey	478,467	507,408	14,231	3,826	4,744	0	5,661	0
New Mexico	71,422	72,089	2,126	709	0	0	667	750
New York	3,110,469	2,862,705	92,578	30,859	30,859	0	0	30,860
North Carolina	343,296	376,249	10,358	3,453	0	0	6,905	0
North Dakota	44,100	42,763	1,337	446	0	0	0	891
Ohio	728,603	688,492	21,832	0	0	0	0	21,832

STATE SUMMARY TABLE I

Federal Net Savings Table Reflecting Impact of Sections 1903(s) and (t) of the Social Security Act

(Dollars in Thousands)

Fiscal Year 1982 (Cont.)

	1/ State Expend.	2/ Target	3/ Gross Reduct.	4/ Offsets			5/ FY 1982 Incentive Rebate	6/ Federal Net Savings
				TPL/F&A	Hosp.	Unemp.		
Oklahoma	$ 240,309	$ 248,244	$ 7,197	$ 721	$ 0	$ 0	$ 6,476	$ 0
Oregon	124,697	134,552	3,730	1,243	0	0	2,487	0
Pennsylvania	960,839	925,165	29,489	2,490	0	0	0	26,999
Rhode Island	119,815	114,186	3,570	0	1,190	0	0	2,380
South Carolina	208,809	224,578	6,301	0	0	0	6,301	0
South Dakota	53,361	47,453	1,609	536	0	0	0	1,073
Tennessee	290,513	353,634	8,648	0	0	0	8,648	0
Texas	679,010	819,841	20,379	0	0	0	20,379	0
Utah	77,768	79,960	2,358	786	0	0	1,572	0
Vermont	56,977	59,012	1,711	0	0	0	1,711	0
Virginia	301,821	286,188	8,995	0	0	0	0	8,995
Washington	225,805	239,271	6,702	2,234	2,234	0	2,234	0
West Virginia	91,096	97,871	2,718	0	0	0	2,718	0
Wisconsin	501,705	582,278	15,200	1,259	0	0	13,941	0
Wyoming	10,754	10,067	323	108	0	0	0	215
Total	$ 17,727,962	$ 17,931,939	$ 530,611	$109,512	$ 50,931	$ 8,160	$ 201,177	$ 160,831

STATE SUMMARY TABLE II

Federal Net Savings Table Reflecting Impact of Sections 1903(s) and (t) of the Social Security Act

(Dollars in Thousands)

Fiscal Year 1983

	1/ State Expend.	2/ Target	3/ Gross Reduct.	4/ Offsets			5/ FY 1983 Incentive Rebate	6/ Federal Net Savings
				F&A	Hosp.	Unemp.		
Alabama	$ 253,029	$ 263,590	$ 10,131	$ 0	$ 0	$ 805	$ 9,326	$ 0
Alaska	25,420	25,948	1,019	0	0	0	528	491
Arkansas	239,920	262,347	9,637	0	0	0	9,637	0
California	2,144,092	2,384,382	85,618	21,404	0	0	64,214	0
Colorado	145,750	141,772	5,862	0	0	0	0	5,862
Connecticut	259,226	228,166	10,378	0	2,595	0	0	7,783
Delaware	32,263	35,183	1,291	0	0	0	1,291	0
Dist. of Columbia	127,079	111,302	5,107	0	0	0	0	5,107
Florida	435,877	376,948	17,433	4,358	0	0	0	13,075
Georgia	426,390	444,508	17,076	0	0	0	17,076	0
Hawaii	74,977	67,742	3,008	752	0	0	0	2,256
Idaho	46,577	48,404	1,878	0	0	0	1,827	51
Illinois	759,134	886,786	30,432	0	0	0	30,432	0
Indiana	344,165	304,064	13,767	0	0	0	0	13,767
Iowa	176,681	178,111	7,076	0	0	0	1,430	5,646
Kansas	139,973	143,748	5,617	0	0	0	3,775	1,842
Kentucky	305,001	306,778	12,222	0	0	0	1,777	10,445
Louisiana	432,232	393,254	17,399	0	0	0	0	17,399
Maine	149,897	132,801	6,023	0	0	0	0	6,023
Maryland	292,591	287,770	11,728	0	2,932	0	0	8,796
Massachusetts	744,069	737,158	30,393	0	7,598	0	0	22,795
Michigan	786,828	830,340	31,335	0	0	5,941	25,394	0
Minnesota	488,599	459,051	19,541	0	0	0	0	19,541
Mississippi	247,446	237,646	9,917	0	0	0	0	9,917
Missouri	290,816	308,907	11,636	0	0	0	11,636	0
Montana	67,323	52,858	2,708	138	0	0	0	2,570
Nebraska	98,148	96,264	3,933	743	0	0	0	3,190
Nevada	40,071	35,141	1,604	0	0	0	0	1,604
New Hampshire	60,451	65,960	2,418	0	0	0	2,418	0
New Jersey	538,260	545,464	21,447	0	5,362	0	7,204	8,881
New Mexico	75,416	77,496	3,013	753	0	0	2,080	180
New York	3,328,717	3,077,408	135,008	33,752	33,752	0	0	67,504
North Carolina	393,406	404,468	15,660	0	0	0	11,062	4,598
North Dakota	54,478	45,970	2,182	0	0	0	0	2,182
Ohio	854,029	740,129	34,161	0	0	0	0	34,161

STATE SUMMARY TABLE II

Federal Net Savings Table Reflecting Impact of Sections 1903(s) and (t) of the Social Security Act

(Dollars in Thousands)

Fiscal Year 1983 (Cont.)

	1/ State Expend.	2/ Target	3/ Gross Reduct.	4/ Offsets			5/ FY 1983 Incentive Rebate	6/ Federal Net Savings
				F&A	Hosp.	Unemp.		
Oklahoma	$ 255,846	$ 266,862	$ 10,249	$ 0	$ 0	$ 0	$ 10,249	$ 0
Oregon	137,450	144,643	5,499	0	0	0	5,499	0
Pennsylvania	1,021,038	994,552	42,205	0	0	0	0	42,205
Rhode Island	134,655	122,750	5,381	0	1,345	0	0	4,036
South Carolina	214,132	241,421	8,549	0	0	0	8,549	0
South Dakota	52,836	51,012	2,175	0	0	0	0	2,175
Tennessee	349,817	380,157	13,980	0	0	0	13,980	0
Texas	826,425	881,329	33,190	0	0	0	33,190	0
Utah	91,961	85,957	3,724	931	0	0	0	2,793
Vermont	61,146	63,438	2,451	0	0	0	2,292	159
Virginia	297,570	307,652	11,922	0	0	0	10,082	1,840
Washington	224,764	257,216	8,995	0	0	0	8,995	0
West Virginia	105,213	105,211	4,244	0	0	801	0	3,443
Wisconsin	547,446	625,949	21,944	0	0	0	21,944	0
Wyoming	12,718	10,822	509	0	0	0	0	509
Total	$ 19,211,348	$ 19,276,835	$ 772,675	$ 62,831	$ 53,584	$ 7,547	$ 315,887	$ 332,826

STATE SUMMARY TABLE III

Federal Net Savings Table Reflecting Impact of Sections 1903(s) and (t) of the Social Security Act

(Dollars in Thousands)

Fiscal Year 1984

	1/ State Estimates	2/ Target	3/ Gross Reduct.	4/ Offsets			5/ FY 1984 Incentive Rebate	6/ Federal Net Savings
				F&A	Hosp.	Unemp.		
Alabama	$ 271,613	$ 279,528	$ 12,223	$ 0	$ 0	$ 1,358	$ 10,865	$ 0
Alaska	31,804	27,517	1,431	0	0	80	0	1,351
Arkansas	261,557	278,210	11,770	0	0	0	11,770	0
California	2,046,713	2,528,554	92,102	20,467	0	0	71,635	0
Colorado	165,657	150,344	7,455	0	0	0	0	7,455
Connecticut	286,485	241,962	12,892	0	2,865	0	0	10,027
Delaware	35,863	37,310	1,614	0	0	0	1,447	167
Dist. of Columbia	153,679	118,032	6,916	0	0	0	0	6,916
Florida	487,111	399,740	21,920	1,218	0	0	0	20,702
Georgia	429,330	471,385	19,320	0	0	0	19,320	0
Hawaii	73,887	71,838	3,325	0	0	0	0	3,325
Idaho	47,917	51,331	2,156	0	0	0	2,156	0
Illinois	904,003	940,405	40,680	0	0	0	36,402	4,278
Indiana	394,905	322,449	17,771	0	0	0	0	17,771
Iowa	183,501	188,881	8,258	0	0	0	5,029	3,229
Kansas	127,996	152,440	5,760	0	0	0	5,760	0
Kentucky	370,679	325,328	16,681	0	0	0	0	16,681
Louisiana	459,493	417,033	20,677	0	0	0	0	20,677
Maine	157,801	140,831	7,101	0	0	0	0	7,101
Maryland	317,757	305,170	14,299	0	3,178	0	0	11,121
Massachusetts	716,442	781,730	32,240	0	7,164	0	25,076	0
Michigan	910,263	880,546	40,962	0	0	4,551	0	36,411
Minnesota	517,702	486,807	23,297	0	0	0	0	23,297
Mississippi	250,321	252,015	11,264	0	0	0	2,545	8,719
Missouri	320,864	327,585	14,439	0	0	0	11,977	2,462
Montana	64,576	56,054	2,906	0	0	0	0	2,906
Nebraska	94,307	102,085	4,244	236	0	0	4,008	0
Nevada	34,509	37,265	1,553	0	0	0	1,553	0
New Hampshire	68,679	69,948	3,091	0	0	0	1,313	1,778
New Jersey	564,049	578,445	25,382	0	5,640	0	14,396	5,346
New Mexico	99,054	82,181	4,457	0	0	0	0	4,457
New York	3,708,887	3,263,484	166,900	37,089	37,089	0	0	92,722
North Carolina	436,010	428,924	19,620	0	0	0	4,272	15,348
North Dakota	63,296	48,750	2,848	0	0	0	0	2,848
Ohio	970,769	784,881	43,685	0	0	0	0	43,685

STATE SUMMARY TABLE III

Federal Net Savings Table Reflecting Impact of Sections 1903(s) and (t) of the Social Security Act

(Dollars in Thousands)

Fiscal Year 1984 (Cont.)

	1/ State Estimates	2/ Target	3/ Gross Reduct.	4/ Offsets			5/ FY 1984 Incentive Rebate	6/ Federal Net Savings
				F&A	Hosp.	Unemp.		
Oklahoma	$ 259,108	$ 282,998	$ 11,660	$ 0	$ 0	$ 0	$ 11,660	$ 0
Oregon	154,849	153,389	6,968	0	0	0	6,968	0
Pennsylvania	1,063,920	1,054,688	47,876	0	0	0	6,958	40,918
Rhode Island	143,748	130,172	6,469	0	1,437	0	0	5,032
South Carolina	234,318	256,019	10,544	0	0	0	10,544	0
South Dakota	63,881	54,096	2,875	0	0	0	0	2,875
Tennessee	394,042	403,143	17,732	0	0	0	17,732	0
Texas	843,129	934,619	37,941	0	0	0	37,941	0
Utah	98,619	91,154	4,438	247	0	0	0	4,191
Vermont	66,879	67,274	3,010	0	0	0	1,265	1,745
Virginia	306,179	326,254	13,778	0	0	0	13,778	0
Washington	260,479	272,769	11,722	0	0	0	11,722	0
West Virginia	105,700	111,573	4,756	0	0	1,057	3,699	0
Wisconsin	556,600	663,797	25,047	0	0	0	25,047	0
Wyoming	13,729	11,476	618	0	0	0	0	618
Total	$ 20,592,659	$ 20,442,409	$ 926,673	$ 59,257	$ 57,373	$ 7,046	$ 376,838	$ 426,159

FOOTNOTES TO TABLES I - III

1/ Amounts for FYs 1982 and 1983 represent the combined Federal share total of actual Medicaid expenditures used for target comparison. Amounts for FY 1984 represent the November 1984 State estimates from Form HCFA-25 plus State Survey and Certification estimates.

2/ The FY 1982 target amounts represent 109.0 percent of the latest Federal share estimates for FY 1981 submitted by the States prior to April 1, 1981, after adjustment by DSAFM to exclude Indian Health Service expenditures and claims relating to expenditures before October 1, 1980. The FY 1983 and FY 1984 target amounts are equal to 107.5 percent and 114.0 percent, respectively, of the FY 1982 targets. These increases reflect the percent change in the medical expenditure component of the Consumer Price Index for all urban consumers from September 1982 to September 1983 (for FY 1983) and from September 1982 to September 1984 (for FY 1984).

3/ The States' expenditures are subject to a 3.0 percent reduction for FY 1982, 4.0 percent for FY 1983, and 4.5 percent for FY 1984.

4/ These States have qualified for 1 or more of the 1.0 percent offsets against the general reduction. Eligibility for these offsets is determined on a quarterly basis.

5/ The FY 1982 and FY 1983 amounts represent actual incentive rebates paid to the States. The FY 1984 amounts represent projected rebates to be paid in January, 1985, based on the latest States' estimates.

6/ Represents the net Federal savings after the applicable offsets and incentive rebates have been applied to the States' gross reductions.

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